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Proposed statement on auditing standards : working papers ; Working papers; Exposure draft (American Institute of Certified Public Accountants), 1981, Apr. 27

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EXPOSURE DRAFT

PROPOSED STATEMENT ON

AUDITING STANDARDS

WORKING PAPERS

APRIL 27, 1981

Prepared by the AICPA Auditing Standards Board
For comment from persons interested in auditing and reporting

Comments should be received by August 25, 1981, and addressed to
AICPA Auditing Standards Division, File 4710
AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036

SUMMARY

This proposed Statement on Auditing Standards supersedes SAS No. 1, section 338, "Working Papers." The revision of section 338 was undertaken primarily because there is some confusion in the profession as to whether the section requires the preparation of working papers. The main purpose of the proposed SAS is to make it clear that working papers are required.

The significant features of the proposed SAS are as follows:

- The auditor should prepare and maintain working papers, the form and content of which should be designed to meet the circumstances of a particular engagement (paragraph 1).
- The auditor is not precluded from supplementing working papers by other means (paragraph 1).
- Working papers serve mainly to aid in the conduct and review of work (paragraph 2(b)).
- Working papers should show that the standards of fieldwork have been complied with. In particular, working papers should
 - (a) Include documentation showing that the system of internal accounting control has been studied and evaluated (paragraph 5(b)).
 - (b) Permit reasonable identification of the work done and should document the auditor's conclusions (paragraph 5(c)).

It is anticipated that the final SAS will specify an effective date.



American Institute of Certified Public Accountants

1211 Avenue of the Americas, New York, New York 10036 (212) 575-6200

April 27, 1981

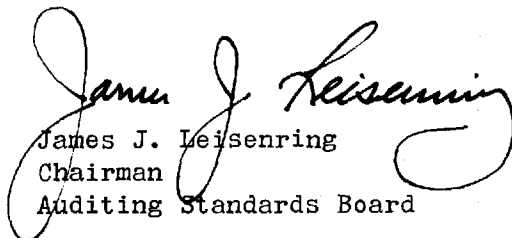
Accompanying this letter is an exposure draft of a proposed Statement on Auditing Standards that supersedes SAS No. 1, section 338, "Working Papers."
A summary of the proposed SAS accompanies this letter.


Comments or suggestions on any aspect of this exposure draft will be appreciated. The AICPA Auditing Standards Board's consideration of responses will be helped if the comments refer to the specific paragraph numbers and include reasons for any suggestions or comments.

In developing guidance, the AICPA Auditing Standards Board considers the relationship between the cost imposed and the benefits reasonably expected to be derived from audits. It also considers differences that the auditor may encounter in the audit of the financial statements of small businesses and, when appropriate, makes special provisions to meet those needs. Thus, the board would particularly appreciate comments on those matters.

Responses should be sent to the AICPA Auditing Standards Division, File 4710, in time to be received by August 25, 1981. Written comments on the exposure draft will become part of the public record of the AICPA Auditing Standards Division and will be available for public inspection at the offices of the American Institute of Certified Public Accountants after September 8, 1981, for one year.

Sincerely,


James J. Leisenring
Chairman
Auditing Standards Board


D. R. Carmichael
Vice President, Auditing

This exposure draft has been sent to

- *practice offices of CPA firms*
 - *members of AICPA Council and technical committee chairmen*
 - *state society and chapter presidents, directors, and committee chairmen*
 - *organizations concerned with regulatory, supervisory, or other public disclosure of financial activities*
 - *persons who have requested copies*
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PROPOSED STATEMENT ON AUDITING STANDARDS

WORKING PAPERS

(Supersedes Statement on Auditing Standards No. 1, Section 338, "Working Papers.")

1. The auditor should prepare and maintain working papers, the form and content of which should be designed to meet the circumstances of a particular engagement.¹ The information contained in working papers constitutes the principal record of the work that the auditor has done and the conclusions that he has reached as a result of his work. However, the auditor is not precluded from supplementing working papers by other means to support his opinion and his representation regarding compliance with auditing standards. This section provides guidance concerning the working papers that the independent auditor prepares for audits of financial statements or other engagements to which any of the generally accepted auditing standards apply.

FUNCTIONS AND NATURE OF WORKING PAPERS

2. Working papers serve mainly to

- a. Provide the principal support for the auditor's opinion and his representation regarding compliance with the standards of fieldwork which is implicit in the reference in his report to generally accepted auditing standards.²
- b. Aid in the conduct and review of the auditor's work.

3. Working papers are the records kept by the independent auditor of the procedures he followed, the tests he performed, the information he obtained, and the conclusions he reached pertinent to his audit. Examples of working papers are audit programs, analyses, memoranda, letters of confirmation and representation, abstracts of company documents, and schedules or commentaries prepared or obtained by the auditor. Working papers also may be in the form of data stored on tapes, films, or other media.

4. The factors affecting the independent auditor's judgment as to the quantity, type, and content of the working papers for a particular engagement include (a) the nature of the auditor's report, (b) the nature of the financial statements,

schedules, or other information on which the auditor is reporting, (c) the nature and condition of the client's records, (d) the degree of reliance on internal accounting control, and (e) the needs in the particular circumstances for supervision and review of the work.

CONTENT OF WORKING PAPERS

5. Although their quantity, type, and content will vary with the circumstances, working papers should be sufficient to show that the accounting records agree or reconcile with the financial statements or other information being reported on and that the standards of field work have been complied with. Working papers ordinarily should include documentation showing that

- a. The work has been adequately planned, supervised, and reviewed, indicating observance of the first standard of fieldwork.
- b. The system of internal accounting control has been studied and evaluated as a basis for reliance thereon and for determining the extent of tests to which the auditing procedures are to be restricted, indicating observance of the second standard of field work.
- c. The audit evidence obtained, auditing procedures followed, and the testing performed provided sufficient competent evidential matter to afford a reasonable basis for an opinion, indicating observance of the third standard of field work. The record in these respects may take various forms to permit reasonable identification of the work done by the auditor and to document the auditor's conclusions.

¹This Statement does not supersede the recommendations of AICPA Industry Audit Guides or the requirements of other Statements on Auditing Standards, including the following:

- The letter of audit inquiry to the client's lawyer required by SAS No. 12, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*, paragraphs 8-9.
- The written representations from management required by SAS No. 19, *Client Representations*.
- The notation in the working papers required by SAS No. 20, *Required Communication of Material Weaknesses in Internal Accounting Control*, paragraph 4, if material weaknesses in internal accounting control are communicated orally to senior management or its board of directors.
- The written audit program or set of written audit programs required by SAS No. 22, *Planning and Supervision*, paragraph 5.

²This Statement amends SAS No. 1, section 230, "Due Care in the Performance of Work," paragraph 4, to read, "For example, due care in the matter of working papers requires that their content be sufficient to provide the principal support for the auditor's opinion and his representation regarding compliance with the standards of field work which is implicit in the reference in his report to generally accepted auditing standards."

**OWNERSHIP AND CUSTODY OF
WORKING PAPERS**

6. Working papers are the property of the independent auditor, and in some states there are statutes that designate the auditor as the owner of working papers. The auditor's rights of ownership, however, are subject to ethical limitations relating to the confidential relationship with clients.

7. The independent auditor's working papers may serve as a useful reference source from time to time for his client, but the working papers should not be regarded as constituting a part of, or as a substitute for, the client's accounting records.

8. The independent auditor should adopt reasonable procedures for safe custody of his working pa-

pers and should retain them for a period sufficient to meet the needs of his practice and to satisfy any pertinent legal requirements of records retention.